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SUBJECT: IRAQ'S CHALLENGES IN COMBATING TERRORIST FINANCING

REF: STATE 140389

Classified By: Classified by ECON Minister Counselor, Thomas Delare, Re
asons 1.4 b/d

1. (C) Summary: Iraq faces many challenges in building its capacity to come to grips with terrorism financing and money laundering. The unique security situation also makes it extremely difficult to conduct an in-depth assessment of Iraq's needs and deliver technical assistance in this area. Given these constraints, Post has prepared the following background regarding the current situation. There are some positive steps in implementing a Money Laundering Reporting Office and making minor infrastructure improvements in the banking sector, but many difficulties remain. In particular, Iraqi buy-in is lacking. Post will continue to work with the current government and its successor to secure implementation of terrorist financing initiatives. End summary.

IMPLEMENTATION OF BANKING AND ANTI-MONEY LAUNDERING LAWS

2. (SBU) Current Iraqi laws involving the banking sector include: CPA Orders 56 (Central Bank Law), CPA Order 40 (Banking Law) and CPA Order 93 (Anti-Money Laundering Law). USAID's Economic Governance II Project provides technical assistance to the Central Bank of Iraq in implementing the Central Bank and Banking Law. Implementation of these laws has been slow. However, USAID's Economic Governance II Project reports that the Iraqis are enacting regulations for the implementation of CPA Order 56. The Iraqis have not implemented any additional banking laws at this time, despite the strong need. In addition, there has been no implementation of the CPA Order 93 on Anti-Money Laundering by the GOI. Legislation and regulations to require use of international accounting standards are also needed.

CURRENT INSTITUTIONAL CAPACITY

3. (SBU) The Iraqis have been slow to implement CPA Order 93, which calls for setting up a Money Laundering Reporting Office (MLRO) in the Central Bank of Iraq (CBI). Although the law was enacted over a year ago, the Iraqis are just now evaluating the creation of such an office. As a result, Iraq does not have the current institutional capacity to combat and investigate terrorism/illicit financing. There is no structure like the Department of Treasury's Office of Foreign Asset Control (OFAC) within either the Ministry of Finance or Interior, or elsewhere. In addition, there is no asset forfeiture structure or related law to create this type of structure. This means there is no entity or legal authority within the GOI to seize money linked to terrorism finance or other illicit uses.

PLANS FOR A MONEY LAUNDERING REPORTING OFFICE

4. (C) Despite lagging action, some progress has been made. Treasury and IRS-CI are working with the Central Bank of Iraq and the US advisors to Iraq's National Intelligence Council (NIC) in establishing the MLRO. Based on a proposal provided to the Iraqi NIC, this office would be the primary intelligence institution with responsibilities to collect, analyze, store and disseminate intelligence data on matters concerning terrorist financing. It would be the exclusive intelligence institution with responsibilities to administer CPA Order 93. The office would be responsible for establishing an asset forfeiture fund to be used by Iraqi intelligence, law enforcement or military organizations. It will be responsible for collection, analysis and storage of counterfeit currency (domestic and foreign), counterfeit negotiable instruments, and evidence pertaining to violations of international agreements, accords, treaties, or other legal obligations concerning intellectual property. The long-term plan would be to have the Financial Action Task Force (FATF) recognize the MLRO as Iraq's financial intelligence unit (FIU). While Post is working on the development of the MLRO and FIU, it is too early in the process to provide a timeline for Washington regarding technical assistance needs. Post welcomes Washington's future involvement in this process when appropriate. The security and political situation in the country in the next

six months will be key factors in gaining Iraqi buy-in and cooperation on these issues.

INTERNATIONAL ACCOUNTING STANDARDS TRAINING

15. (SBU) In the interim, USAID's Economic Governance II Project is providing general technical assistance on international accounting standards and supervisory roles to make sure banks will be capable of reporting large or suspicious transactions. Other training is also being provided on producing balance/cash flow documentation. Teaching international accounting standards is a much needed area in universities, businesses, and the banking sector as there are few trained Iraqis with significant expertise conducting financial analysis.

LACK OF INFRASTRUCTURE/AUTOMATION IN THE BANKING SECTOR

16. (SBU) The lack of automation/infrastructure in the banking sector hinders the ability of the GOI to control illicit financing. There are no ATMs, although the Credit Bank, a private commercial bank, is interested in having an automated ATM in its bank. However, the Central Bank has not received any application from them. While we hear the Trade Bank of Iraq might have some plans for ATMs, there are no ATMs being used right now by the general Iraqi public at large. This means that money is either potentially sent by hawalas, which are neither regulated or monitored, or otherwise transported. This lack of monetary controls and automation contributes to illicit financing and criminal activity.

17. (SBU) Despite these challenges, there is some progress being made in the area of automation through a program of direct deposits for Iraqi government employees. Through the Warka Bank, a pilot project has provided approximately 10,000 employees from the Ministry of Municipalities with automatic/direct deposit. The Ministries of Agriculture, Health, and Interior are the next institutions to be addressed in the pilot project. In addition, the Minister of Labor & Social Affairs (MOLSA) is being considered for direct deposit, which will have broader effects given their role in disbursing pensions and other programs. This is a positive movement (i.e. employees have to be verified to have accounts set up for them). Since the issue of "ghost employees" has been an issue in the ministries, this automation should increase accountability of government funds. There are plans to implement this type of payment system at the border to pay the salaries of border guards so that the ministry may avoid transporting large amounts of cash over dangerous roads.

CHALLENGES IN PROVIDING TECHNICAL ASSISTANCE TO IRAQ

18. (SBU) Iraq needs additional technical assistance to combat terrorism finance/money laundering. However, implementing training for banks and other institutions is limited, given the current security situation. Post supports encouraging the GOI to join international bodies, such as the Middle East North African Financial Action Task Force (MENA FATF). While the current Iraqi Government is not showing initiative in the area of combating terrorism finance, Post will continue to press the GOI so that we will have some momentum on this issue going into the next Iraqi Government after the December elections.

19. (SBU) Post also recommends that training and technical assistance being evaluated by Washington occur in-country. It is important to train the Iraqis in their existing environment. However, the security situation will need to change and more buy-in from the GOI is needed before this type of technical assistance and training is feasible.
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